

Healthcare

Healthy Growth; Tempered Upside

Highlights

- Hospitals remain resilient with expansion-led earnings growth, but we expect some near-term medical tourism softness.
- Risks appear contained, including policy risk related to DRG transition and Middle East cost inflation.
- Maintain MARKET WEIGHT as growth is tempered by elevated valuations. Our top picks for the sector are KPJ Healthcare and Duopharma.

Analysis

- Near-term foreign patient softness with rupiah weakness and SST.** The recent depreciation of the Indonesian rupiah, coupled with the 6% SST on foreign patients, raises the all-in treatment cost for Indonesian healthcare travellers to Malaysia. This could moderate demand for lower-acuity procedures. Indonesians are estimated to account for about 70% of health tourists to Malaysia. However, we expect the impact on private hospitals to be contained as healthcare services are typically more price insensitive and Malaysia offers a downtrade alternative to Singapore. Nevertheless, there could be downside risk to medical tourism growth.
- Middle East conflict impact.** While the Middle East conflict has raised concerns over pharmaceutical cost inflation, the near-term impact on private hospitals appears contained. From our channel checks, hospitals have built inventory buffers or locked in supply agreements early, shielding them from immediate price hikes. Active pharmaceutical ingredients (API) cost inflation had been uneven, with sharp spikes largely limited to selected drugs such as paracetamol (>50%) only. Meanwhile, Middle East healthcare tourists also make up less than 5% of Malaysia's foreign healthcare tourist base.
- DRG: Gradual transition limited near-term earnings risk.** While DRG could become more commercially relevant from 2027 through the Base Medical and Health Insurance/Takaful (MHIT) framework, the earnings impact should be modest and gradual rather than abrupt. Implementation will likely be phased, with time needed to refine coding, severity classification, pricing benchmarks, outlier rules and hospital IT readiness. Larger hospital groups should be relatively well positioned given their scale. As such, we do not expect DRG to pose a major near-term earnings risk to the likes of IHH and KPJ.

MARKET WEIGHT (Maintained)

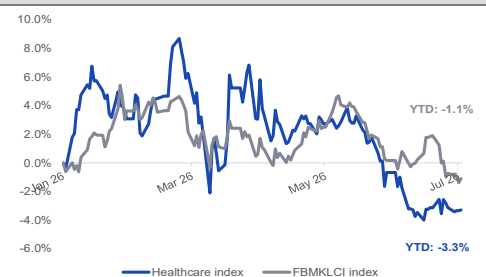
Analyst

Philip Wong

philipwong@uobkh.com

(603) 2147 1996

Healthcare Index VS FBMKLCI Index



Source: Bloomberg, UOB Kay Hian
Healthcare Index is an equal weighted index consisting of IHH Healthcare, KPJ Healthcare, Sunway Healthcare, Duopharma Biotech, Pharmaniaga, Alpha IVF, LAC Med, Optimax, Cengild Medical, and TMC Life Sciences

Sector Picks

Company	Rec	Share Price (RM)	Target Price (RM)
Alpha IVF	BUY	0.24	0.33
Duopharma	BUY	1.22	1.62
KPJ	BUY	3.18	3.85
IHH	HOLD	8.32	9.25

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Currency	Share Price 8 Jul 26 (local currency)	Target Price	Market Cap (US\$m)	PE 2026F (x)	PE 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	Div Yield 2026F (x)	P/B 2026F (x)
IHH Healthcare	IHH MK	HOLD	RM	8.32	9.25	18,275.7	33.3	29.0	13.4	12.5	1.2	2.5
BKK. Dusit	BDMS TB	BUY	THB	19.20	32.00	8,906.2	18.0	17.0	10.4	9.8	4.0	2.7
Sunway Healthcare	SUNMED MK	NOT RATED	RM	1.88	n.a.	5,198.9	74.0	54.4	26.9	22.8	0.0	6.5
Bumrungrad Hospital	BH TB	HOLD	THB	184.00	196.00	4,325.5	19.5	18.9	13.3	12.4	2.6	4.4
KPJ Healthcare	KPJ MK	BUY	RM	3.18	3.85	3,452.3	34.3	31.3	14.5	13.3	1.3	5.0
Raffles Medical	RFMD SP	BUY	SGD	0.92	1.25	1,308.2	23.6	21.9	10.1	9.3	3.3	1.7
BKK Chain Hospital	BCH TB	BUY	THB	9.65	14.00	717.4	17.8	17.0	7.9	7.6	1.5	1.8
Regional Hospitals Average						6,074.6	31.5	27.1	13.8	12.5	2.0	3.5
Alpha IVF Group	ALPHA MK	BUY	RM	0.24	0.42	296.8	21.6	16.8	9.5	8.6	3.8	6.7
Duopharma Biotech	DBB MK	BUY	RM	1.22	1.67	297.7	11.8	11.0	7.0	6.8	2.9	1.6
Malaysia Healthcare Average						297.3	16.7	13.9	8.2	7.7	3.3	4.2

Source: Bloomberg, UOB Kay Hian

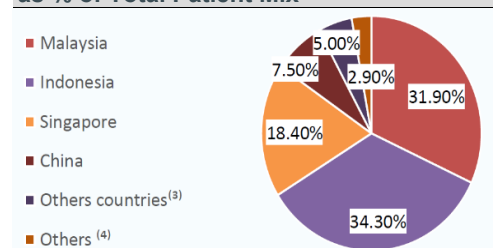
- **Hospitals earnings growth outlook.** We expect the hospitals' revenue to grow 12.4%/9.8% in 2026/27 respectively. 2026-27 growth is being anchored by the gestation of brownfield expansions, greenfield hospitals/acquisitions such as KPJ Kuala Selangor, and the completed Mount Elizabeth Hospital (IHH) renovation. These gestations should gradually improve margins, following which earnings growth of 13.6% should outstrip revenue growth of 14.9%.
- **Alpha IVF: Birthing pains for FY27 joy.** Near-term earnings may be weighed by start-up costs, but new centres underpin a stronger FY27 growth runway. Sabah and Manila could reach pre-tax profit breakeven by 2QFY26, with Johor, Northern Luzon and Jakarta slated by Dec 26. Execution risk appears manageable, given Alhaya Fertility Centre (Alhaya) Kuala Lumpur's first-month breakeven and RM2m net profit, while matching group-level success rates, suggesting new centres could scale quickly as volumes build. Earnings are projected to contract 7.0% in FY26 before recovering by 23.8% in FY27.
- **Duopharma: Earnings growth underpinned by contract continuity.** Duopharma's earnings growth over 2026-27 should remain visible, anchored by the government's insulin contract continuity, the stability of the company's approved products purchase list (APPL) and its margin resilience. The newly awarded RM225m insulin contract sustains 2026-27 revenue visibility. Potential APPL contract extensions beyond Dec 26 could further reduce procurement disruption risk and provide moderated earnings growth into 2027. This supports forecast PAT growth of 17.1% in 2026 and 8.6% in 2027, aided by stronger margins and manageable cost pressures.

Health Tourist Breakdown By Nationality

Country of Origin	% of total health tourists
Indonesia	65.8%
China	5.1%
India	3.1%
United Kingdom	2.0%
Japan	2.0%
Australia	1.6%
Singapore	1.6%
Philippines	1.3%
United States	1.2%
Bangladesh	1.2%

Source: MHTC

Alpha IVF's High Indonesian Patient Mix as % of Total Patient Mix



Source: UOB Kay Hian

Valuation/Recommendation

- **Maintain MARKET WEIGHT: Healthy growth, tempered upside.** Sector heavyweights KPJ and IHH offer attractive 2026-27 earnings growth of 13.6% and 14.9%, supported by brownfield expansions, greenfield hospitals/acquisitions and the completed Mount Elizabeth renovation. Hospital revenue is expected to grow 12.4%/9.8% in 2026/27 respectively, with margin uplift allowing earnings to outpace revenue. However, upside is tempered by hospital valuations trading above the historical mean at 33.9x PE vs 32.7x, potential spillovers from a prolonged Middle East conflict, and weaker Indonesian medical tourism amid the rupiah depreciation.
- Duopharma still offers a healthy 17.1% growth, backed by newly awarded government contracts. Alpha IVF's FY26 earnings contraction reflects rapid expansion costs, but breakeven within a year supports a 23.8% FY27 rebound. By virtue of the heavyweights, we ascribe a MARKET WEIGHT rating to the healthcare sector. We prefer the hospital segment for its multi-year growth runway from brownfield expansions, with KPJ as our preferred exposure. Duopharma is also a top sector pick, underpinned by its palatable valuation and steady earnings visibility.

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link:
<https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc> or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."